

JUN 15 1981

Gentlemen:

Your application for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code has been considered.

The information submitted with your application discloses that you were formed "to further the knowledge and understanding of others through formal and informal social events of common interest and to promote friendship among club members with other individuals. It shall also be the purpose of [REDACTED] to donate to charitable organizations or needy families at least once each year, and to operate as a nonprofit organization." Members of other chapters of [REDACTED], in good standing, moving into the [REDACTED] area may become members of [REDACTED].

You indicate that you are affiliated with a "parent" chapter, [REDACTED], headquartered in [REDACTED]. However, since each chapter is independent and incorporated in each state, you request a ruling of exemption for your own unit.

You state that you permit nonmembers, other than guests of members, to use the club facilities or participate in or attend functions or activities conducted by you. You also indicate that [REDACTED] % of your income is received from nonmembers in the form of money as well as goods to be used as door prizes or items to be auctioned. At social events you charge a minimum entry fee. Your Financial Data Sheet indicates that you spent \$[REDACTED] for advertisement.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to benefit of any private shareholder."

CODE	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER
		[REDACTED]					
SUR NAME		[REDACTED]					
DATE		6-10-81					

Section 1.501(c)(7)-1(b) of the Income Tax Regulations states that:

"...Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business..."

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

A review of the available records fails to reveal that your "parent," [REDACTED] has established tax exempt status.

Public Law 94-568 permits social clubs described in section 501(c)(7) of the Internal Revenue Code to qualify for tax exemption if substantially all of its activities are for pleasure, recreation, and other nonprofit purposes, and if no more than 35 percent of all gross receipts including investment income, is from nonmember source. No more than 15 percent of gross receipts, however, can be from the general public's use of club facilities and services. Since your receipts from non-members is [REDACTED]%, you do not meet the 15% limitation. In addition, advertisement for public patronage is prima facie evidence that the club is engaging in business with the general public.

Accordingly, it is held that you are not entitled to exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code, and you are required to file income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 802 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

(3)

[REDACTED]

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible. You should also file the enclosed Federal income tax return(s) within 30 days with the Chief, Employee Plan/Exempt Organization Division 1100 Commerce, Dallas, Texas 75242.

Sincerely,

[REDACTED]
District Director

Enclosures:
Publication 892
Form 6018
Form 1120 (1980)